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ECONOMIC REFORM IN THE SOVIET CONSUMER INDUSTRIES

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I. Introduction

As the availability of clothing, shoes, and other consumer items has increased in the USSR in recent years, Soviet planners have found it increasingly difficult to satisfy the consumer, who for the first time in Soviet history has found it possible to be more selective in his purchases. The traditional centralized management of production had worked reasonably well in the USSR when queues and shortages guaranteed that a shoddy suit or a shapeless dress would be sold. Once above a threadbare existence, however, the Soviet consumer was quick to demand increased quality, wider variety, and greater attention to style.

Since the late 1950's the consumer industries and the trade network in the USSR have not been able efficiently to produce and sell the larger quantities of goods that have been made available. Large amounts of the goods actually produced either were not sold at all, or were sold only after long delays and sharp reductions in price. Because customers were unwilling to buy textiles, clothing, and footwear that were shoddy, poorly designed, or unattractive, inventories of these products have grown nearly twice as fast as total retail sales since 1958. 1/ The volume of total retail sales did not keep pace with the rise in personal incomes during this period. 2/

When price reductions and the introduction of installment credit proved unsuccessful, Soviet officials decided to tackle the problem of inventory

accumulation and buyer resistance on a broader front by introducing changes in management and control at the plant level designed to make producers more responsive to consumer demand. Accordingly, in mid-1964 experiments were begun in two clothing plants to test the effectiveness of two innovations -- basing production plans on direct contracts with retail stores and establishing profitability (the ratio of profit to production cost) as the main criterion for measuring plant performance and rewarding managers. The profitability principle had already been proposed in 1962 by Ye. G. Liberman, who argued that economic efficiency could be raised considerably by its use, coupled with the granting of greater freedom of action to enterprise managers. 3/

In January 1965, six months after the initial experiments began at the two clothing plants, Soviet planners expanded the experiment to include more than 400 enterprises in light industry and a few plants in the food industry. While these experiments were still in process, the Soviet leadership announced plans for a much broader reform of planning and management that ultimately would encompass all of Soviet industry.

This report traces the evolution of the recent reforms in the consumer industries, describes the problems and the initial results, analyzes the role of the consumer industries in shaping the industry-wide reforms, and evaluates the prospects for achievement of the major objectives of the reforms -- increased efficiency of enterprises and greater satisfaction of consumers.

II. Experiments at Bol'shevichka and Mayak

In mid-1964 an experiment in decentralized control of enterprise operations was begun in two large clothing plants -- the Bol'shevichka plant in Moscow and the Mayak plant in Gor'kiy. 4/ Major features of the new system were: (1) the establishment of profitability as the main indicator for evaluating the success of the enterprise and for rewarding its managers*, and (2) the use of direct contracts between producers and retailers as the basis for planning and scheduling production. Central control was maintained over prices and major capital investments, and the overall targets for sales and profitability were established centrally. Otherwise, plant managers were free to make decisions without consulting higher authorities; for example, they could set the requirements for materials and labor, and fix the size and distribution of the wage fund. Plant managers also arranged contractual agreements with retailers for models and designs, assortments, delivery dates, and the details of transfer and storage. Fines ~~were~~ could be imposed for failure to honor terms of the contracts. Bonuses for managerial and other salaried employees were based on the level of profitability and were paid out of profit accumulations, provided that the sales plan was fulfilled. Although wage rates for production workers were based on scales set centrally for the clothing industry, management was encouraged to experiment with bonus schemes designed to improve quality. 5/

Even though the basic prices for clothing were those of the established price lists, enterprise managers and trade officials were given considerable

* The profitability indicator is defined as the ratio of profit to the cost of production and in this report, ~~any reference to~~ profitability refers to such a ratio. In contrast, under Liberman's formula and that used in the general reforms adopted in October 1965, profitability is defined as the ratio of profits to total investment -- fixed plus working capital.

freedom to raise prices to cover the additional costs resulting from improvements in quality and changes in style and assortment. The freedom to make such price adjustments thus was a key provision of the experiments; otherwise the enterprises would have incurred losses, since they were not permitted to adjust profit margins.

The two plants concentrated on introducing new styles, improving workmanship, and reorganizing production lines so as to operate more efficiently. Both Bol'shevichka, which produces some 600,000 men's suits annually, and Mayak, which produces various kinds of women's and children's clothing, made extensive changes in plant operation and management. New design departments were set up, retail outlets tested consumer acceptability of new suits, coats, and dresses, and many old lines of goods were discontinued. Special accounting and sales procedures were established to handle contracts with suppliers of raw materials and with retail stores. In order to respond to the demand for broader assortments, mass-production was replaced by smaller production runs. Quality control was tightened so as to eliminate many defects normally tolerated under the old system. By delivering direct to retail stores the two pilot plants completely bypassed the wholesale network to which they formerly delivered all finished goods.

During the first few months of the experiment the two plants began to have difficulty with the new economic incentives, which linked managerial bonuses directly to the profitability rate achieved by the enterprise. Because

the profit margins were fixed and varied greatly among the various models of clothing, wide fluctuations in profitability occurred as a result of ~~the~~ shifts in product assortment ~~that occurred~~ in response to changes in customer requirements. As a result, managers sometimes were penalized rather than rewarded for their efforts. To overcome this difficulty, in early 1965 the sales plan rather than the profitability plan was made the basis on which bonuses for management were paid, with the proviso that the profit plan also be fulfilled. 6/ By the end of a full year's operation this problem apparently had been worked out. Indeed, the managers of Bol'shevichka and Mayak attributed much of the success of the experiment to the effectiveness of the new bonus system which, they maintained, not only promoted better product designs, a broader assortment of goods, and a general up-grading of quality, but also stimulated the enterprise to fulfill the plans. 7/

Results by mid-1965 showed that key indicators -- output, profit, and profitability -- at both the firms were above their pre-test levels. During the first half of 1965 Bol'shevichka increased its output in physical units by 6.8 percent compared with the first half of 1964, even though the volume of sales in terms of value was lower. The drop in sales resulted from a decline of 12 percent in the average price per suit, because consumers preferred to buy the new medium priced suits, rather than the high priced suits previously produced. Even so, the firm reported a profitability rate of 8.5 percent, compared with 5.5 percent in the first half of the previous

year. The higher rate of profitability suggests that increase in some inequitably low profit margins were occasionally allowed under the experiments, despite official statements that there would be no tampering with profit margins.

After initial declines in the early months of the test, output and profits at Mayak recovered former levels, and in 1965 the plant exceeded the very high profitability rate (18 percent) that was planned. The firm concentrated on the development of new models of high quality, and as a result 300 of the 500 models produced at Mayak during 1965 were new. Nylon raincoats and winter coats of dacron and wool blends, both in great demand, were produced at considerably higher levels than the firm had anticipated. The commodity turnover rate reportedly increased by three times, and the normally extensive returns of defective merchandise from stores were almost eliminated. 8/ The increased demand for goods produced by Mayak made necessary some expansion of its capacity, and construction of an additional plant is now in the planning stage.

In spite of the difficulties the two firms encountered in adjusting to the new economic indicators, Soviet officials obviously considered the Bol'shevichka and Mayak experiments successful. After only six months of the experiment, plant managers and planning officials alike seemed to be convinced that the new system provided a means by which goods could be produced more efficiently in response to changes in consumer demand. At both

plants the product improved markedly and sold readily. Besides the difficulties with bonus arrangements, however, other problems arose, indicating that the road ahead would not be smooth. Officials of the sovnarkhozes never become reconciled to the increased independence of the two plants. Suppliers in some instances failed to deliver on schedule, making difficult the completion of the plants' contracts. Bol'shevichka and Mayak were able to circumvent many of the minor problems, because the experiments were carried out under a considerably higher priority than normally accorded the consumer industries. The pilot plants operated successfully under the new system, but in retrospect it is difficult to see how, under the conditions of the experiment, they could have failed. Whether the problems that became apparent would be soluble under a widespread extension of the new system in the consumer industries was still an open question.

III. Experiments During 1965

A. Expansion of the Test

In January 1965 the Soviet government, satisfied with the results at Bol'shevichka and Mayak, decided to broaden the experiments to include about 400 enterprises of light industry and its suppliers.* 9/ About one-fourth of all clothing plants and a slightly larger share of footwear plants

* Including all clothing and footwear plants and associations in Moscow, Leningrad, Kiev, Odessa, Khar'kov, Minsk, L'vov, Vil'nyus, Tallin, and a number in Kazakhstan, Moldavia, and the republics of Central Asia and the Transcaucasus. In the Ukraine, a separate experiment involved two light industry plants, three plants in the machinery and metalworking branch, and several coal mines, but these experiments, testing a variety of planning procedures besides those being tested in the consumer sectors, were never carried to completion.

were scheduled to take part in the broadened experiment in the third quarter of 1965. To prepare for this large conversion, nearly one-fifth of the textile mills (40 percent of the capacity of the industry because of the inclusion of many large mills) and nearly one third of the leather plants were to begin to shift to the new system in the second quarter. 10/ Plans for broadening the experiment were carried out on schedule. By the end of 1965 almost all of the 400 enterprises reportedly had made the changeover. 11/ In addition, two confectionery plants, a meat processing plant, and a milk products plant began working under the new system in October 1965. 12/

Although a few significant changes were made, the plants brought into the experiment during 1965 worked under essentially the same set of planning procedures that had been tested at Bol'shevichka and Mayak. The first and most significant change, previously described, was that made in the system of bonus payments to plant managers. This change was accomplished by a decree adopted early in 1965 by the State Committee on Labor and Wages, under which bonuses for managerial employees of the firms transferred to the new system of planning were made to depend on fulfilling the sales plan (rather than the plan for profitability) under the single condition that the plan for profits was fulfilled. 13/ In a further move to ensure success of the new system, a special fund was established at the sovnarkhoz level to compensate enterprises for losses in profits resulting from changes in the product mix in those cases where inconsistencies in the fixed profit caused

the loss. The second significant change was that under the extension the producing firms contracted with wholesalers and associations of retailers (<u>torgs</u>), as well as with individual retail stores. Bol'shevichka and Mayak had dealt directly only with the retail stores.

Other changes restricted some of the managerial freedoms that characterized the first test. During the initial test, enterprise managers and retailers cooperated in the setting of higher prices, but in the 1965 extensions price increases necessitated by improvements in quality or design required approval by the sovnarkhoz. Also, certain geographical restrictions were imposed in the letting of contracts. Whereas Bol'shevichka and Mayak had been free to make contracts with stores or supplier plants in any part of the country, firms included in the 1965 tests could not negotiate contracts with plants outside their republics or oblasts. 14/

B. Enterprise Performance

The ease with which plants were able to transfer over to the new system was quite uneven and apparently depended primarily on the previous efficiency of enterprise operations and on the initiative of managers and their ability to get things done without detailed guidance from above. In Kiev, for example, the "Ukraina" Sewing Association made the change to production on the basis of contracts with a simultaneous increase in output, whereas several clothing plants in Leningrad, such as the Volodarskiy Factory, experienced a decline in production and profits and failed to meet contractual obligations. 15/

In general, enterprises changing over to the new system encountered three major problems: (1) failure to receive deliveries of materials according to contracts, (2) irrational differences in fixed profit margins which affected profits and bonuses, and (3) higher operating costs brought about by changes in product mix and in the scale of operation.

Problems of materials supply, which had been serious even during the tests at Bol'shevichka and Mayak, continued under the extension and occurred mainly because plants working under the new system had goals (the earning of profit) that conflicted with those of enterprises still operating under the old rules. The extension of the experiment to suppliers of textiles, leather, and other raw materials eased the immediate problem of material supplies to the final goods producers, ~~However,~~ but a similar problem quickly arose for the supplier plants. Producers of textiles, for example, found it difficult or impossible to honor delivery contracts for fabrics when the producers of fibers, dyes, and other essential materials were still under the old system. The Minister of Light Industry, N. N. Tarasov, on behalf of the plants experimenting with direct contracts, complained particularly, that the chemical industry failed to supply the textile industry with good quality fibers, dyes and special materials. 16/ As a result clothing firms often were forced to contract with buyers for products for which the required textile materials were available, rather than for the goods that consumers wanted. Difficulties in obtaining supplies also made necessary the carrying

of unusually large inventories of fabrics and other materials in order to insure delivery of finished goods on schedule. Thus, in attempting to solve the problem of surplus inventories of clothing, producers were forced to carry above-normal inventories of raw materials. 17/

Other problems at the enterprise level related to the uneven profit margins for various products allowed by the established price lists, a situation that made for large differences in the profitability of making these products. The variations in profit margins stem ~~resulted~~ from the fact that the setting of prices and the fixing of profit and turnover tax* have long been used as administrative tools to control overall production and consumption. Present prices and profit margins are the result of a multiplicity of historical decisions of planners made from considerations of policy or in response to conditions that no longer exist. Profit margins on children's clothing, for example reflect past decisions of the regime to keep retail prices low as a matter of social policy, whereas profit margins for women's stylish and expensive clothing reflect a desire to discourage demand for ~~of~~ such luxury items.

Plants working under the new system found that efficiency of operation was closely related to the size of contracts. Most large enterprises producing consumer goods are geared to mass production of a particular range of products, whereas contracts based on customer demand often comprised differentiated assortments and small lots to which plants could not readily adapt or the production of which raised production costs intolerably.

* For sewn clothing the turnover tax is paid by the manufacturer on the fabric and thus is included as a production cost, not as a tax. On most other consumer goods the turnover tax is added in at the wholesale level and becomes a part of the wholesale price.

Bol'shevichka and Mayak, as well as many of the enterprises that changed over in 1965, found it necessary to establish a lower limit on the size of contracts in order to operate efficiently. At Mayak, for example, the average cost per unit for one item of clothing was found to be less than one ruble in lots of 2,000 and more than 3 rubles in lots of 500 items, the cost increasing even more sharply as orders fell below 500 items. The Mayak plant established a minimum size of lots of 500 items; Bolshevichka limited its orders to a minimum of 400 suits. 18/

C. Industry-Wide Problems

The disruption of traditional lines of authority that were a consequence of the use of direct contracts and the greater independence of plant managers resulted in many difficulties. First of all, direct contracting between plants and retailers seriously threatened the authority of the wholesale trade organizations, whose place in the new system was never clearly defined during the test period. Even though planners may have recognized that the wholesale network had a vital role to play in general, they failed to prepare the wholesale trade system for the changes in operations that necessarily would follow from the direct contracting features of the experiments. Plants transferring to the new system in 1965 were persistent in exercising their right to contract directly with retail stores or supplier plants rather than with trade or supply organizations. To complicate the matter further, trade officials themselves do not agree on the functions that

the wholesalers should have under the reforms. The Minister of Internal Trade, A. Struyev, for example, while acknowledging that certain large producers should contract independently with retailers, contends that wholesale trade organizations should control the bulk of the contracting by acting as intermediary between producers and buyers. The trade organization, in his view, should realign its operations so as to concentrate on identifying consumer preferences, placing orders with producers, and assuring timely deliveries of assortments on order to all but the very large retail stores. 19/ Other trade officials envision a more limited role for the wholesale organizations. According to this view, producers would establish permanent ties with nearby retail organizations or individual stores and the work of the wholesale network would be limited to coordinating orders between small producers and stores, handling interregional shipments, distributing imported goods, and furnishing storage facilities as needed. 20/

Another major obstacle to smooth operations encountered in the test period was the widespread opposition of regional sovnarkhoz officials, who refused to recognize the special status of the experimental plants and continued to issue orders, instructions, and plans as usual. In many instances the complete independence of enterprises envisioned under the test procedures did not exist at all, because the old regulations were strongly enforced. 21/ For example, the experimenting firms could not levy fines for failure to honor contracts, as allowed by test procedures, because the offices of arbitration under

sovnarkhoz control refused to recognize the validity of these procedures. In some cases sovnarkhoz officials continued to intervene in the affairs of the experimenting enterprises by placing "urgent" local orders and by assigning quotas for delivery to the trade network. During 1965, for example, sovnarkhoz officials directed the Bol'shevichka firm to sell to the Moscow wholesale organization 10,000 suits of stipulated fabrics and styles, completely ignoring the right of the enterprise to contract independently with retail stores. Sovnarkhoz officials continued to issue plans for monthly production, cost reduction, labor inputs and the like. Sovnarkhoz interference at the Mayak firm was even more troublesome. At one point, the manager at Mayak, under threat of administrative punishment, was even ordered to void the plant's contracts made under the test rules and to begin production according to orders from the sovnarkhoz; this was in effect a demand to revert to the former status. 22/ In other cases sovnarkhoz officials resorted to the use of the "preemptive order" to obstruct deliveries under contract. At the Glukhovo Cotton Combine in the Moscow area, for example, where production was planned on the basis of direct contracts with retailers, the sovnarkhoz demanded that the direct contracts be cancelled and that deliveries be made to the central storage base. The Republic Ministry of Trade then cancelled this directive of the sovnarkhoz and ordered the combine to sign a contract for delivery of its total output to the Ministry. 23/

Other problems of enterprises in the test stage concerned the kinds of reports the plants had to submit to higher authorities. The guide lines

for the test required that clothing and footwear plants evaluate their success on the basis of total sales and profitability, yet local officials pressed for the reporting of indicators according to normal industry practice. In many cases plants were required to submit both sets of reports in order to satisfy the conflicting demands made upon them. 24/

IV. The Kosygin Reforms and the Consumer Sector

While the testing of reforms and the conversion of the 400 enterprises of light industry proceeded as scheduled in 1965, Soviet officials were making even more widespread changes affecting the control and management of all of industry. Clearly, these changes were shaped by the results of the experimentation in the consumer industries. A major reform, announced by Premier Kosygin in a speech before the Central Committee of the Communist Party of the USSR and adopted by the Supreme Soviet early in October 1965, eliminates many of the traditional indicators and controls that burdened enterprise management and elevates the importance of the "economic levers" of profit and bonuses. Kosygin also recommended direct contracting among enterprises, emphasized the value of sales rather than of gross output as the primary indicator of enterprise performance, and proposed that an interest charge be levied on invested capital. As a countermeasure to relaxation of control at the plant level, the reform included an element of stronger centralization. The sovnarkhozes established by Khrushchev in 1957 to direct industry on a regional basis were abolished and replaced by new national ministries. 25/*

* The two most important ministries in the consumer goods sector are the Ministry of Light Industry and the Ministry of the Food Industry.

The consumer industries will be the first to make full scale conversion to the new system. The conversion of light industry by major branches is to begin in the fourth quarter of 1966, when new wholesale prices also will become effective. 26/ The conversion of all of the light and food industries is to be completed in 1967. In preparation for the conversion of entire branches during 1967-68 large numbers of individual plants are changing over to the new system during 1966. During the first quarter of 1966 43 plants in various industries transferred to the new system, including in light industry besides Bol'shevichka, two woolen and one cotton textile plants, and two knitwear plants located mainly in the Moscow area. Also converted were plants of the food, meat, and dairy industries as well as heavy industrial plants producing chemicals, metals, and building materials. 27/ In the second quarter 180 to 200 plants are scheduled for conversion, and in the third quarter a changeover is planned for several entire branches of consumer industry, the most important of which are sugar, tea, liquor, and tobacco. 28/

A first official step in implementing the reform in October 1965 was the issuance of a statute on the operation of the industrial enterprise that codifies the new freedoms and responsibilities granted to enterprise management. 29/ In this statute, managers of consumer goods plants are made specifically responsible for planning the details of product assortments, for contracting with suppliers for materials and with the trade network or stores for deliveries, and for making numerous other decisions affecting plant efficiency. Managers of

consumer goods plants are explicitly instructed to base output plans on direct contracts with the trade network, whereas plants in other industries are merely encouraged to expand the use of direct contracts.

In a further move to implement the reform, general methodological instructions were issued in February 1966 to all branches of industry for use as a guide in the conversion of plants to the new system. 30/ In subsequent weeks, further instructions were promulgated setting forth specific guidelines for working out the details of the bonus system and the establishment of the enterprise fund for investment called for under the reform.

Under the reforms the government still will establish the main parameters within which the plants will operate. Specifically, the Ministries will establish for each plant, including those in the consumer industries: (1) the volume of sales, (2) the financial indicators (profit and profitability*, and payments into the budget), (3) capital investment financed from the budget, (4) new technology and new products, (5) allocations of certain scarce materials and equipment, and (6) the size of the wage fund. Enterprise managers are to plan the remaining indices, including the size and composition of the labor force, the cost of production and the productivity of labor. Although the ministry will fix the assortment plan in the case of the most important products, details such as amounts, sizes, colors, variations of style and terms of delivery will be decided at the plant level. Plant managers will sell on contract to retail stores or trade organizations and buy materials on contract directly from suppliers.

* Profit in percent of fixed plus working capital.

The bonus system for the consumer industries under the Kosygin reforms is essentially the same as that approved by the State Committee on labor and Wages in 1965 and already in use in the experimenting plants. 31/ Under it plant management may earn bonuses of 25 to 40 percent of basic salary rates for fulfillment of the sales plan (providing the profit plan is met) with extra bonuses for each percentage of overfulfillment of sales, the total not to exceed 50 percent of the basic salary. Production workers may receive bonuses according to rules worked out by enterprise management within centrally prescribed limits of wage and bonus scales.

Although it is still too early to judge the entire program for reform in the consumer industries, the new system does apparently shift more of the day to day responsibility for production away from the central apparatus to the individual plants. Strong central controls will continue to be maintained by the ministries, however, particularly those controls that relate to finance. Only to a limited extent will the freedoms given to plant managers at Bol'shevichka and Mayak be accorded to other consumer goods plants coming under the reform program. Managers no longer will be able to initiate price changes, for example, or to determine the size of the wage fund, or to experiment freely with the bonus system.

V. Prospects

In the relatively short space of a year and a half the Soviet leadership has moved from a cautious introduction of economic reforms in two experimental

plants to a broad program of reform that will ultimately affect all of Soviet industry. The rapid extension of the reforms, first to 400 enterprises, then to all of industry is a recognition on the part of the post-Khrushchev leadership that the methods of managing industry -- heavy as well as light -- were in need of drastic overhauling. The tempo of extending and implementing the reforms testifies to an acute recognition that the old way of doing business had become terribly inefficient. On the other hand, it is apparent that the Soviet leadership is still approaching the problem of reform with considerable caution. The reforms are initially being pushed in the traditionally low priority consumer industries so that if major disruptions in production occur they will have little effect on the high priority sectors that produce machinery and military goods.

On the whole the new system appears to offer reasonable solutions to some of the most pressing problems relating to consumer goods production. However, the spirit of decentralization that characterized the Bol'shevichka and Mayak experiments has been considerably dampened under the Kosygin reforms. Furthermore, past experience has shown that Soviet bureaucracy has a tendency to envelop reform movements in a web that stifles initiative and to substitute one complicated control system for another. Once the new system has been introduced to all of the consumer industries, its success in large part will be determined by such factors as (1) the ability of management to handle new

responsibilities, (2) the extent of cooperation at the various levels of authority, and (3) the effectiveness of the new wholesale prices. Greater freedom for managers demands resourcefulness not required under the old arrangements. The extent to which managers learn to operate under these new and untried conditions and to function independently as decision makers, even to the limited degree permitted under the new rules, may prove to be a major determinant in the success of the enterprise and of the industry as a whole.

Much also will depend on the willingness of officials at all levels to cooperate in making the new system work. In light of the conflicts between plants and administrative officials during the experiments, the prospects for a smooth transition are far from bright. Signs of foot-dragging already are to be seen in the banking and financial organizations, which fear a loss of profit revenues to the state budget. The State Bank has already been charged with failure to support the reforms by its reluctance to provide adequate short-term credits to enterprises. 32/

The success of the new system also will depend to an important extent on the effectiveness of the revision of wholesale prices. Presumably the new prices will still be based on average costs and will not reflect the influence of demand, nor will they be flexible. Whether the new prices will allow profit margins appropriate to the purposes of the reforms remains to be seen. Because enterprises now are judged on profit as well as on sales, the new prices with their adjusted profit margins will be a critical factor under the new rules, which require that profits be sufficient to cover capital

charges, payment of managerial bonuses, and additions to various enterprise funds. The achievement of such a profit level may well be difficult for high-cost plants (those that operate at costs above the average), whereas extremely high levels of profits may be possible for other plants that operate more efficiently. Profit incentives, however, may encourage innovation and the modernization of plant that is urgently needed in many branches of the consumer industries.

It is to be emphasized that the new Soviet reforms in no way introduce a "free market" into the consumer goods sector. Under the new system, the Soviet consumer will have a better opportunity to vote for a dacron suit over an all wool one or show an equal preference for blue and tan raincoats, but Soviet planners have ~~in no way~~ not relinquished control over the share of resources that go to the consumer. Plants may compete for contracts on the basis of quality, style, or promptness of delivery, but managers cannot make independent decisions in important matters pertaining to finance or the kinds of goods to produce.

That the Soviet leadership is finally attempting to make more compatible the wants of the consumer and the motivations of the producer reflects past blindness more than it does present foresight. The former practice of basing economic incentives first on gross value of output and more recently on reductions in the cost of production merely encouraged plant management to produce high priced goods regardless of their saleability or to reduce costs

at the expense of quality. The introduction of strong incentives to achieve a better meshing of the desires of consumers and the goals of producers will help to prevent further wasteful accumulations of surplus consumer items. The hope of Soviet planners is that by paying more attention to what consumers want the resources allocated to consumption in the future can be used more efficiently.

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